

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Malden
Contributory Retirement System
For the Four Year Period
January 1, 1999 - December 31, 2002
PERAC 02: 09-051-21**

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February 24, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Malden** Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E.Connarton
Executive Director

Malden Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

1. Member Deductions: The auditor sampled members' deduction rates to determine that correct percentages are being withheld, and that the additional 2% deduction is withheld from those members who earn over \$30,000 and were hired after January 1, 1979. The payroll officers calculate an annual salary for regular earnings over \$30,000 and deduct the additional 2% based on the number of pay-periods per year and deduct an equal amount per pay period, regardless of the actual earning for that pay-period. This method leaves significant chance for error when additional regular earnings are paid and manual intervention is required to adjust the withholding.

Recommendation: According to G.L. c. 32, § 22(1)(b1/2), 840 CMR 8.03, and PERAC MEMO #43/1999, all members who enter the system after January 1, 1979 and whose rate of pay on any given pay-period exceeds an annual rate of \$30,000 are subject to the additional 2% withholding. The Board must instruct payroll officials to deduct the additional 2% every pay-period that earnings exceed an annualized rate of \$30,000.

2. Member Deductions: The Board stipend and staff salaries are paid through the Board's expense checking account. Staff members who receive a stipend for Board duties, and whose total earnings exceed \$30,000, are not having the additional 2% withheld on their stipend.

Recommendation: As stated in the above recommendation, all annual earnings exceeding \$30,000 are required to have the additional 2% withheld.

3. Board Meeting Minutes: The Auditor reviewed Board Meeting Minutes from January 1999 through July 2003. The pages are not pre-numbered and every other page is blank.

Recommendation: In accordance with G.L. c. 32, § 21(1) and Division of Insurance memo dated February 25, 1981, the pages of the Minutes must be pre-numbered or initialed by Board members. Pages intentionally left blank should be marked "intentional – left blank".

Board Response:

With respect to the findings and recommendations set forth...please be advised that the issue regarding the Board staff's and member's stipends not having the additional 2% withheld for earnings over \$30,000 has been addressed and corrected. The Board has also endeavored to pre-number the pages to record the minutes of meetings, and will, in the future, label blank pages so that the reader will know that the page or pages have intentionally been left blank.

The Board discussed PERAC's other finding with respect to the Board's method of calculating the additional 2% deduction for those members who earn over \$30,000 and were initially hired on or

Malden Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

after January 1, 1979. Please be advised that the Board has a method in place which, in the Board's opinion, minimizes the potential for error, and notwithstanding the provisions of 840 CMR 8.03, the Board will continue to utilize this method, as it has proven to be the most efficient way to identify those individuals who actually earn more than \$30,000 per year and recover the additional 2% deduction.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that appropriate actions have been taken regarding the audit findings.

Malden Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2002	2001	2000	1999
Cash	\$2,109,453	\$3,773,013	\$8,931,064	\$6,813,184
Short Term Investments	0	0	0	0
Fixed Income Securities (at book value)	58,483,005	51,266,447	39,270,080	21,990,752
Equities	42,693,833	53,831,368	70,841,455	87,661,556
Interest Due and Accrued	758,651	772,044	686,860	375,769
Accounts Receivable	4,188,683	4,246,796	5,073,226	5,405,147
Accounts Payable	(578,490)	(649,470)	(1,174,566)	(554,021)
TOTAL	<u>\$107,655,135</u>	<u>\$113,240,197</u>	<u>\$123,628,119</u>	<u>\$121,692,387</u>
FUND BALANCES				
Annuity Savings Fund	\$25,405,715	\$26,024,110	\$24,797,220	\$22,753,538
Annuity Reserve Fund	11,675,449	9,333,562	9,189,101	9,495,535
Pension Fund	15,390,868	16,365,466	16,872,971	17,604,232
Military Service Fund	3,258	3,182	3,080	2,970
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>55,179,845</u>	<u>61,513,877</u>	<u>72,765,746</u>	<u>71,836,112</u>
TOTAL	<u>\$107,655,135</u>	<u>\$113,240,197</u>	<u>\$123,628,119</u>	<u>\$121,692,387</u>

Malden Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$21,582,732	\$8,989,711	\$17,285,011	\$6,673	\$0	\$42,341,265	\$90,205,392
Receipts	2,675,137	275,833	7,950,441	139	517,725	29,493,076	40,912,351
Interfund Transfers	(1,346,298)	1,348,368	0	(3,842)	0	1,771	(0)
Disbursements	(158,033)	(1,118,377)	(7,631,220)	0	(517,725)	0	(9,425,356)
Ending Balance (1999)	22,753,538	9,495,535	17,604,232	2,970	0	71,836,112	121,692,387
Receipts	2,890,204	275,900	7,123,844	110	630,041	933,161	11,853,260
Interfund Transfers	(581,430)	584,957	0	0	0	(3,528)	(0)
Disbursements	(265,092)	(1,167,290)	(7,855,105)	0	(630,041)	0	(9,917,528)
Ending Balance (2000)	24,797,220	9,189,101	16,872,971	3,080	0	72,765,746	123,628,119
Receipts	2,931,048	272,771	7,557,433	102	604,675	(11,248,243)	117,785
Interfund Transfers	(1,034,425)	1,038,050	0	0	0	(3,626)	(0)
Disbursements	(669,733)	(1,166,360)	(8,064,939)	0	(604,675)	0	(10,505,707)
Ending Balance (2001)	26,024,110	9,333,562	16,365,466	3,182	0	61,513,877	113,240,197
Receipts	2,966,294	278,045	7,501,534	76	573,134	(6,334,416)	4,984,667
Interfund Transfers	(3,284,596)	3,284,211	0	0	0	384	0
Disbursements	(300,094)	(1,220,370)	(8,476,132)	0	(573,134)	0	(10,569,729)
Ending Balance (2002)	<u>\$25,405,715</u>	<u>\$11,675,449</u>	<u>\$15,390,868</u>	<u>\$3,258</u>	<u>\$0</u>	<u>\$55,179,845</u>	<u>\$107,655,135</u>

Malden Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$2,467,881	\$2,353,831	\$2,254,110	\$2,071,302
Transfers from other Systems	39,885	48,998	90,447	21,037
Member Make Up Payments and Redeposits	104,386	73,807	76,071	123,505
Investment Income Credited to Member Accounts	<u>354,143</u>	<u>454,412</u>	<u>469,576</u>	<u>459,292</u>
Sub Total	<u>2,966,294</u>	<u>2,931,048</u>	<u>2,890,204</u>	<u>2,675,137</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>278,045</u>	<u>272,771</u>	<u>275,900</u>	<u>275,833</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	66,107	71,067	77,046	63,048
Received from Commonwealth for COLA and Survivor Benefits	677,150	722,014	455,085	910,171
Pension Fund Appropriation	<u>6,758,278</u>	<u>6,764,352</u>	<u>6,591,713</u>	<u>6,977,223</u>
Sub Total	<u>7,501,534</u>	<u>7,557,433</u>	<u>7,123,844</u>	<u>7,950,441</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>76</u>	<u>102</u>	<u>110</u>	<u>139</u>
Sub Total	<u>76</u>	<u>102</u>	<u>110</u>	<u>139</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>573,134</u>	<u>604,675</u>	<u>630,041</u>	<u>517,725</u>
Sub Total	<u>573,134</u>	<u>604,675</u>	<u>630,041</u>	<u>517,725</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	0	0	0	0
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	3,225	7,089	2,054	2,319
Excess Investment Income	<u>(6,337,641)</u>	<u>(11,255,332)</u>	<u>931,107</u>	<u>29,490,757</u>
Sub Total	<u>(6,334,416)</u>	<u>(11,248,243)</u>	<u>933,161</u>	<u>29,493,076</u>
TOTAL RECEIPTS	<u>\$4,984,667</u>	<u>\$117,785</u>	<u>\$11,853,260</u>	<u>\$40,912,351</u>

Malden Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Refunds to Members	\$178,685	\$319,513	\$123,541	\$114,420
Transfers to other Systems	<u>121,409</u>	<u>350,221</u>	<u>141,551</u>	<u>43,613</u>
Sub Total	<u>300,094</u>	<u>669,733</u>	<u>265,092</u>	<u>158,033</u>
Annuity Reserve Fund:				
Annuities Paid	1,200,738	1,151,566	1,116,221	1,083,902
Option B Refunds	<u>19,631</u>	<u>14,794</u>	<u>51,069</u>	<u>34,475</u>
Sub Total	<u>1,220,370</u>	<u>1,166,360</u>	<u>1,167,290</u>	<u>1,118,377</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	4,952,734	4,564,087	4,464,735	4,307,808
Survivorship Payments	453,273	397,547	377,943	381,832
Ordinary Disability Payments	159,978	213,400	129,267	125,795
Accidental Disability Payments	1,704,864	1,623,464	1,540,714	1,508,300
Accidental Death Payments	360,730	386,636	405,285	315,560
Section 101 Benefits	42,982	38,746	41,530	30,454
3 (8) (c) Reimbursements to Other Systems	139,357	139,729	143,214	170,836
State Reimbursable COLA's Paid	630,206	669,065	719,502	753,241
Chapter 389 Beneficiary Increase Paid	<u>32,008</u>	<u>32,264</u>	<u>32,915</u>	<u>37,394</u>
Sub Total	<u>8,476,132</u>	<u>8,064,939</u>	<u>7,855,105</u>	<u>7,631,220</u>
Military Service Fund:				
Return to Municipality for Members Who				
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	21,083	23,000	23,000	23,000
Salaries	118,269	107,199	104,373	90,668
Legal Expenses	0	0	150	0
Medical Expenses	0	0	0	0
Travel Expenses	7,869	14,069	7,844	2,615
Administrative Expenses	35,953	36,850	39,386	42,203
Furniture and Equipment	0	9,898	0	17,731
Management Fees	365,085	387,083	428,929	320,045
Custodial Fees	24,874	26,577	26,359	21,465
Consultant Fees		<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>573,134</u>	<u>604,675</u>	<u>630,041</u>	<u>517,725</u>
TOTAL DISBURSEMENTS	<u>\$10,569,729</u>	<u>\$10,505,707</u>	<u>\$9,917,528</u>	<u>\$9,425,356</u>

Malden Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Investment Income Received From:				
Cash	122534.11	319876.28	\$570,588	\$180,361
Short Term Investments	0	0	10,811	0
Fixed Income	4,062,804	3,491,939	2,086,831	1,736,996
Equities	881,022	809,524	331,629	349,674
Pooled or Mutual Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>5,066,360</u>	<u>4,621,339</u>	<u>2,999,859</u>	<u>2,267,031</u>
Plus:				
Increase in Amortization of Fixed Income Securities	-	502,975	1,183,255	35,754
Realized Gains	2,119,546	854,998	2,738,188	1,848,203
Unrealized Gains	1,030,411	2,512,443	9,004,799	33,053,840
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>758,651</u>	<u>772,044</u>	<u>686,860</u>	<u>375,769</u>
Sub Total	<u>3,908,607</u>	<u>4,642,460</u>	<u>13,613,102</u>	<u>35,313,565</u>
Less:				
Decrease in Amortization of Fixed Income Securities	-	(671,458)	(81,838)	(1,299,515)
Paid Accrued Interest on Fixed Income Securities	(1,204,724)	(906,474)	(509,544)	(216,024)
Realized Loss	(8,340,549)	(12,125,314)	(5,453,305)	(2,118,238)
Unrealized Loss	(4,801,081)	(4,797,067)	(7,885,771)	(2,794,242)
Custodial Fees Paid	-	-	-	-
Consultant Fees Paid	-	-	-	-
Management Fees Paid	-	-	-	-
Board Member Stipend	-	-	-	-
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(772,044)</u>	<u>(686,860)</u>	<u>(375,769)</u>	<u>(408,830)</u>
Sub Total	<u>(15,118,398)</u>	<u>(19,187,173)</u>	<u>(14,306,227)</u>	<u>(6,836,849)</u>
NET INVESTMENT INCOME	<u>(6,143,431)</u>	<u>(9,923,374)</u>	<u>2,306,734</u>	<u>30,743,746</u>
Income Required:				
Annuity Savings Fund	354,143	454,412	469,576	459,292
Annuity Reserve Fund	278,045	272,771	275,900	275,833
Military Service Fund	76	604,675	630,041	139
Expense Fund	<u>573,134</u>	<u>102</u>	<u>110</u>	<u>517,725</u>
TOTAL INCOME REQUIRED	<u>1,205,398</u>	<u>1,331,959</u>	<u>1,375,627</u>	<u>1,252,989</u>
Net Investment Income	<u>(6,143,431)</u>	<u>(9,923,374)</u>	<u>2,306,734</u>	<u>30,743,746</u>
Less: Total Income Required	<u>1,205,398</u>	<u>1,331,959</u>	<u>1,375,627</u>	<u>1,252,989</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$7,348,829)</u>	<u>(\$11,255,332)</u>	<u>\$931,107</u>	<u>\$29,490,757</u>

Malden Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$2,109,453	2.04%	100
Short Term	0	0.00%	100
Fixed Income	58,483,005	56.62%	40 - 80
Equities	42,693,833	41.34%	40
GRAND TOTALS	<u>\$103,286,291</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Malden** Retirement System was -5.30%. For the five year period ending December 31, **2002**, the rate of return for the investments of the **Malden** Retirement System averaged 7.46%. For the 18-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Malden** Retirement System was 10.94%.

Malden Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The **Malden** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

February 4, 1987

20.03(1) Equity investments shall not exceed 65% of the total book value of the portfolio at the time of purchase.

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

December 31, 1987

20.04(6) American Depository Receipts listed on a United States stock exchange or traded over the counter in the United States, provided that any such investments not exceed 5% of the total book value of equity investments.

March 29, 1990

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

December 12, 1991

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

February 21, 1992

4.03 (1) Within four (4) weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the board shall send to PERAC, a photocopy of the following for the month:

- (a) cash book entries;
- (b) trial balance; and
- (c) journal entries.

June 10, 1998

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond-rating services. However, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating B or equivalent as rated by one or more recognized bond-rating services.

20.06(4) Fixed income holdings that are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year. However, 10% of the market value of fixed income investments may be invested in bonds with a quality rating of B or equivalent as rated by one or more recognized bond-rating services.

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Malden** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Malden** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

January 11, 1995

MEMBERSHIP:

City - Redevelopment - Housing employees shall become members of system when hired as directed by Chapter 32, section 3.

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

MEMBERSHIP:

Part-time employees meeting qualifications of Chapter 32 and rules of retirement board as follows:
20 hours per week, 39 weeks per year.

MEMBERSHIP:

Employees of temporary nature found to be ineligible for membership in system upon becoming permanent employee shall have privilege of purchasing past service, so allowed by board.

SUPERANNUATION RETIREMENT:

Applicant after meeting all qualifications of Chapter 32, section 5 must complete proper forms, setting date - options and etc., all forms must be witnessed and be signed by spouse. Form showing his rights and benefits must be witnessed for signature of applicant.

ORDINARY DISABILITY:

Applicant shall present a letter stating disability and treatment from his attending physician before receiving application for ordinary disability. Qualifications required by Chapter 32, section 6 must be met by applicant and proper form signed and witnessed, in accordance with P.E.R.A. regulations.

ACCIDENTAL DISABILITY:

Applicant shall present a letter stating disability and treatment from his attending physician before receiving application for accidental disability. Applicant shall sign release for all Departmental, Doctor and Hospital medical records. Applicant shall become available for examinations by a doctor for evaluation examinations if desired by retirement board. Upon meeting fully all qualifications as required by Chapter 32, section 7, applicant must sign proper form having same witnessed, in accordance with P.E.R.A. regulations.

REFUNDS:

Members desiring refunds of deductions upon leaving employment, after making proper application approved by the board, must pick up check in person, and sign proper form upon receipt of check.

TWO APPLICATIONS:

Board ruling that only one accidental disability application be allowed before the board at one time. Until final determination is made on an existing application for disability, a second application shall not be acted upon for one year from date of first application or until such time as first application is adjudicated.

November 25, 1987

For those employees hired after January 1, 1988, prior service for part-time employment, Prior Service Credit Allowance, shall not credit any hours less than twenty hours per calendar week.

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

October 17, 1989

Employees paid for services from Federal Community Development Grants, and members of the Malden Contributory Retirement System seeking to buy back service credit paid from Community Development Grants, shall not receive approval for creditable service for this service until funding for said service is received from Community Development funds received by the City of Malden. This action was taken in accordance with the provisions of Chapter 661, Acts of 1983, Section 24”.

July 17, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c.7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request)

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Controller who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Domenic Fermano

Appointed Member: Joanne Croken

Elected Member: Warren Atkinson, Jr. Term Expires: 11/30/05

Elected Member: Douglas Eisnor Term Expires: 11/30/05

Appointed Member: Ronald Hogan Term Expires: 12/04/05

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$30,000,000 Fiduciary Liability
Elected Member:)	MACRS Policy
Appointed Member:)	
Staff Employee:)	

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Public Employee Retirement Administration Commission** as of **January 1, 2002**.

The actuarial liability for active members was	\$81,202,511
The actuarial liability for retired members was	77,609,327
The total actuarial liability was	158,811,838
System assets (actuarial value) as of that date were	124,259,098
The unfunded actuarial liability was	<u>\$34,552,740</u>
 The ratio of system's assets to total actuarial liability was	 78.2%
As of that date the total covered employee payroll was	\$29,708,257

The normal cost for employees on that date was 7.55% of payroll

The normal cost for the employer was 8.03% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: Varies by service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$124,259,098	\$158,811,838	\$34,552,740	78.2%	\$29,708,257	116.3%
1/1/2000	\$104,762,557	\$138,939,842	\$34,177,285	75.4%	\$27,496,991	124.3%
1/1/1998	\$69,966,024	\$124,151,027	\$54,185,003	56.4%	\$24,056,000	225.2%
1/1/1996	\$55,405,048	\$102,382,237	\$46,977,189	54.1%	\$21,744,154	216.0%

Malden Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	36	35	13	17	32	19	29	8	17	53
Ordinary Disability	1	1	0	0	0	0	1	1	2	0
Accidental Disability	4	2	4	2	2	0	2	2	5	0
Total Retirements	41	38	17	19	34	19	32	11	24	53
Total Retirees, Beneficiaries and Survivors	587	613	613	613	622	649	661	642	622	660
Total Active Members	780	807	834	859	834	841	891	949	903	838
Pension Payments										
Superannuation	\$3,241,571	\$3,581,692	\$3,744,283	\$3,375,343	\$4,095,879	\$4,148,925	\$4,307,808	\$4,464,735	\$4,564,087	\$4,952,734
Survivor/Beneficiary Payments	115,917	127,978	129,940	261,624	313,062	297,851	381,832	377,943	397,547	453,273
Ordinary Disability	1,211,917	1,297,123	1,242,580	129,940	118,616	116,767	125,795	129,267	213,400	159,978
Accidental Disability	247,348	270,886	272,939	1,336,344	1,533,565	1,447,204	1,508,300	1,540,714	1,623,464	1,704,864
Other	<u>1,137,999</u>	<u>1,259,641</u>	<u>1,249,029</u>	<u>1,363,343</u>	<u>1,356,643</u>	<u>1,353,445</u>	<u>1,307,486</u>	<u>1,342,446</u>	<u>1,266,441</u>	<u>1,205,281</u>
Total Payments for Year	<u>\$5,954,752</u>	<u>\$6,537,320</u>	<u>\$6,638,771</u>	<u>\$6,466,594</u>	<u>\$7,417,765</u>	<u>\$7,364,192</u>	<u>\$7,631,220</u>	<u>\$7,855,105</u>	<u>\$8,064,939</u>	<u>\$8,476,131</u>